

Message Text

UNCLASSIFIED POSS DUPE

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67

ACTION EUR-12

INFO OCT-01 EA-10 ISO-00 SP-02 AID-05 EB-07 NSC-05 CIEP-02

TRSE-00 SS-15 STR-04 OMB-01 CEA-01 CIAE-00 FRB-01

INR-07 NSAE-00 XMB-04 OPIC-06 LAB-04 SIL-01 DODE-00

PA-02 USIA-15 PRS-01 L-02 H-02 FEA-01 INT-05 OES-05

NEA-09 /130 W

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R 141942Z FEB 75

FM AMEMBASSY LONDON

TO SECSTATE WASHDC 8325

INFO AMEMBASSY BERN

AMEMBASSY BONN

AMEMBASSY BRUSSELS

AMEMBASSY COPENHAGEN

AMEMBASSY DUBLIN

AMEMBASSY LUXEMBOURG

AMEMBASSY PARIS

AMEMBASSY ROME

AMEMBASSY STOCKHOLM

AMEMBASSY THE HAGUE

AMEMBASSY TOKYO

AMCONSUL EDINBURGH

USMISSION EC BRUSSELS

USMISSION OECD PARIS

USDOC WASHDC

UNCLAS SECTION 01 OF 02 LONDON 02403

DEPARTMENT PASS TREASURY AND FRB

E.O. 11652:N/A

TAGS: ECON, UK

SUBJECT: ECONOMIC DEVELOPMENTS-WEEK ENDING FEBRUARY 14

BEGIN SUMMARY: NEITHER RISING UNEMPLOYMENT (NO OFFICIAL

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FIGURES LATELY BECAUSE OF A STRIKE, BUT INCREASING PRESS
REPORTS OF LAYOFFS AND SHORT-TIME WORKING) NOR INCREASING

PRESSURE FROM THE GOVERNMENT WILL KEEP THE COAL MINERS WITHIN THE "SOCIAL CONTRACT." UNION LEADERS AGREED THURSDAY TO RECOMMEND ACCEPTANCE OF A 30 PERCENT AVERAGE OFFER FROM THE COAL BOARD, WELL OUTSIDE THE CONTRACT LIMITS. THE "SOCIAL CONTRACT" RECEIVED A SECOND BLOW THIS WEEK WHEN THE TUC ECONOMIC COMMITTEE REJECTED A PROPOSED REVISION OF GUIDELINES FOR WAGE BARGAINING WHICH WOULD HAVE LINKED PAST COST OF LIVING INCREASES TO GROSS PAY ONLY (I.E. EXCLUDING TAX CONSIDERATIONS). THESE TWO EVENTS BODE ILL FOR THE GOVERNMENT'S EFFORTS TO LIMIT WAGE ESCALATION THROUGH THE "SOCIAL CONTRACT," AND THUS REDUCE THE INFLATION RATE, AS TWO OTHER POWERFUL PUBLIC SECTOR UNIONS (RAILROAD AND ELECTRIC POWER WORKERS) ARE NOW ENTERING INTO THE NEGOTIATING PHASE. AT THE SAME TIME INFLATION CONTINUES TO RAGE ON, AS EVIDENCED BY THE LARGE RISE IN THE WHOLESALE OUTPUT PRICE INDEX FOR JANUARY. THE GOVERNMENT'S ROOM FOR MANEUVER IN THE COMING MARCH OR APRIL BUDGET TO SLOW THE RISE IN UNEMPLOYMENT AND SPUR OUTPUT IS INCREASINGLY CONSTRAINED BY THE WAGE/INFLATION PROBLEM. ALTHOUGH BOTH THE CURRENT ACCOUNT AND TRADE ACCOUNT CONTINUED TO SHOW A DEFICIT IN JANUARY, THE BALANCE ON TRADE IN NON-OIL GOODS RECORDED A SURPLUS OF 51 MILLION POUNDS RESULTING IN PART FROM AN UPTURN IN THE VOLUME OF EXPORTS.

END SUMMARY

1. INFLATION. THE INDEX OF WHOLESALE OUTPUT PRICES (DOMESTIC MARKET GOODS - EX-FACTORY) ROSE BY 2.7 PERCENT IN JANUARY. JANUARY 172.0, DECEMBER 167.4 (1970 EQUALS 100). THE MAJOR CAUSES WERE WAGES AND INCREASING PRICES OF NATIONALIZED INDUSTRY PRODUCTS (STEEL PARTICULARLY) PROMISED IN THE NOVEMBER BUDGET. THE RAW MATERIAL, FUEL INDEX DECREASED BY 0.3 PERCENT IN JANUARY (221.7/222.5).

2. INDUSTRIAL PRODUCTION. THE INDEX OF INDUSTRIAL PRODUCTION FELL 3.3 PERCENT IN DECEMBER OVER NOVEMBER (103.9 /107.5, 1970 EQUALS 100) BUT THE DECLINE MAY BE EXAGGERATED BY A POOR SEASONAL ADJUSTMENT FOR DECEMBER, THE MILD WINTER, AND THE METHOD OF COUNTING (DELIVERIES INSTEAD OF OUTPUT). THE FOURTH QUARTER INDEX NUMBER FELL 1.2 PERCENT

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OVER THE THIRD QUARTER (109.4/110.7) AND IS BELOW THAT FOR THE FOURTH QUARTER OF 1973 (109.9).

3. CONSUMPTION. REGISTRATIONS OF NEW CARS JUMPED BY 25 PERCENT IN JANUARY OVER JANUARY 1974. FOREIGN PRODUCERS CAPTURED A LARGER PROPORTION OF THE MARKET, HOWEVER, UP TO 32 FROM 30.5 PERCENT.

4. OUTPUT. NON-MADE FIBERS PRODUCTION FELL BY 14 PERCENT IN 1974 OVER 1973. NEW ORDERS DO NOT YET INDICATE AN UP-

TURN IN 1975. IN THE MACHINE TOOL INDUSTRY, NEW ORDERS
FELL OFF AT THE END OF 1974, THOUGH OUTPUT CONTINUED
STEADY ON THE BASIS OF EXISTING ORDERS.

5. TRADE AND CURRENT ACCOUNT. THE UK CURRENT ACCOUNT WAS
IN DEFICIT BY 131 MILLION POUNDS (S.A.) IN JANUARY. THE
VISIBLE TRADE DEFICIT WAS REDUCED TO 261 MILLION POUNDS
(S.A.) (FROM THE DECEMBER LEVEL OF 346 MILLION POUNDS).
THE DEFICIT IN OIL-TRADE INCREASED BY 13 MILLION POUNDS TO
312 MILLION POUNDS, BUT THE BALANCE ON TRADE IN OTHER
GOODS (NON-PETROLEUM RELATED) ROSE FROM A DEFICIT OF 47
MILLION POUNDS IN DECEMBER TO A SURPLUS OF 51 MILLION
POUNDS IN JANUARY. THE SWING FROM A DEFICIT TO SURPLUS

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NEA-09 /130 W

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R 141942Z FEB 75

FM AMEMBASSY LONDON

TO SECSTATE WASHDC 8326

INFO AMEMBASSY BERN

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POSITION IN THE NON-OIL TRADE BALANCE RESULTED IN PART
 FROM A SIGNIFICANT, ALTHOUGH POSSIBLY ERRATIC, UPTURN IN
 THE VOLUME OF EXPORTS RELATIVE TO IMPORTS. THE INDEX OF
 EXPORT VOLUME (S.A., B/P BASIS, 1970 EQUALS 100) ROSE FRO
 121.8 IN DECEMBER TO 136.0 IN JANUARY. THE INDEX OF IM-
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PORT VOLUME ROSE FROM 121.5 (IN DECEMBER) TO 127.1.

6. SUPPORT OF GOLD PRICE. IN PRESS COVERAGE OF A LONDON
 CONFERENCE ON GOLD ORGANIZED BY THE FINANCIAL TIMES AND
 THE INVESTORS CHRONICLE, M. WALTER FREY, GENERAL MANAGER
 OF THE SWISS BANK CORPORATION, IS QUOTED AS SAYING,
 "SINCE FRANCE REVALUED HER GOLD HOLDINGS, AT \$170 AN
 OUNCE, THE BANK OF FRANCE HAS BEEN OPERATIONAL AS A BUYER
 THROUGH ITS AGENCIES ON THE PARIS GOLD EXCHANGE WHENEVER
 THE PRICE THERE THREATENED TO FALL BELOW THE OFFICIAL
 FRENCH LEVEL." MR. FREY ALSO PREDICTED THAT THE GOLD
 PRICE WILL SOAR TO "HITHERTO UNPRECEDENTED LEVELS" IF
 EVEN A SMALL PERCENTAGE OF THE ARAB OIL PRODUCING NATIONS
 ENTER THE GOLD MARKET.

7. EXCHANGE RATE AND GOLD:

	2/6	2/13	CHANGE
EXCHANGE RATE	\$2.3715	\$2.3900	UP \$0.0185
EFFECTIVE DEPRECIATION			
(PERCENT)	21.6	21.8	DOWN 0.2
GOLD	\$173.50	\$179.00	UP \$5.50

8. FORWARD DISCOUNT ON STERLING:

	2/6	2/13	CHANGE
1 MONTH	1.35	1.28	DOWN 0.07
3 MONTHS	3.70	3.60	DOWN 0.10
6 MONTHS	6.80	6.70	DOWN 0.10

(ALL FIGURES IN CENTS)

9. EURODOLLAR INTEREST RATES:

	2/6	2/13	CHANGE
1 MONTH	6-1/2	7-1/4	UP 3/4
3 MONTHS	6-7/8	7-11/16	UP 13/16
6 MONTHS	7-1/8	7-15/16	UP 13/16

10. LOCAL AUTHORITY DEPOSIT RATES:

	2/6	2/13	CHANGE
1 MONTH	11-1/8	10-5/8	DOWN 1/2
3 MONTHS	11-7/8	11-1/4	DOWN 5/8
6 MONTHS	12	11-5/16	DOWN 11/16

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11. THE MINIMUM LENDING RATE FELL ANOTHER 1/4 PERCENT ON FRIDAY, FEBRUARY 14, TO 10-1/2 PERCENT, THE FOURTH SUCH DROP SINCE MID-JANUARY.

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Message Attributes

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Decaption Note:
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Disposition Approved on Date:
Disposition Authority: n/a
Disposition Case Number: n/a
Disposition Comment:
Disposition Date: 01 JAN 1960
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
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Executive Order: N/A
Errors: N/A
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Margaret P. Grafeld
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EO Systematic Review
05 JUL 2006

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Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
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Status: NATIVE
Subject: ECONOMIC DEVELOPMENTS-WEEK ENDING FEBRUARY 14 BEGIN SUMMARY: NEITHER RISING UNEMPLOYMENT (NO OFFICIAL
TAGS: ECON, UK
To: STATE
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 05 JUL 2006